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UNCLAS SECTION 01 OF 03 KABUL 003933

SIPDIS

DEPT FOR SCA/FO, SCA/RA, AND SCA/A (A/S BOUCHER, GASTRIGHT, DEUTSCH)
DEPT PASS AID/ANE, OPIC
DEPT PASS USTR FOR GERBER AND KLEIN
DEPT PASS OPIC FORZAHNISER
DEPT PASS TDA FOR STEIN AND GREENIP
CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT
NSC FOR JWOOD
TREASURY FOR ABAUKOL, BDAHL, AND MNUGENT
MANILA PLEASE PASS ADB/USED
PARIS FOR OECD/ENERGY ATTACHE
OSD FOR SHIVERS, SHINN
COMMERCE FOR DEES, CHOPPIN, AND FONOVIKH
TOKYO ALSO FOR AID COUNSELOR AANENSON

SENSITIVE
SIPDIS

REF: KABUL 3087

E.O. 12958 N/A
TAGS: [EMIN](#) [EFIN](#) [ETRD](#) [KPWR](#) [EAID](#) [PGOV](#) [AF](#) [CH](#)
SUBJECT: AF: Aynak Copper: Details of winning Chinese bid remain elusive.

Sensitive but Unclassified

1. (SBU) Summary: After a prolonged tender and evaluation process, on October 20, 2007, the state-owned China Metallurgical Group (CMG) was awarded the right to start negotiating detailed contract for the Aynak Copper Mine project. By some accounts, the Chinese are expected to invest approximately USD 3 billion to develop Afghanistan's large copper deposit in Loghar Province, south of Kabul. Despite accusations of irregularities in the bid tendering and evaluation process, the World Bank - the process underwriter and overseer - has said the evaluation of the bids appears to have proceeded according to the process spelled out in tender documents, and in accordance with the law (reftel). Although exact details are currently unavailable, meetings with Chinese Embassy officials in Kabul and other sources yielded additional information regarding the project. End Summary.

2. (SBU) According to our U.K. colleagues, project development is expected to take five years with the mine employing some 10,000 workers. Once mining operations are underway, the IROA will receive royalties equal to 15 percent of the mine's income, estimated to be worth some USD 400 million per year. (Note: We have no indication if this will be net or gross income. End Note.) The award announcement clearly states that no bid or evaluation details will be released until a mining contract has been signed. World Bank advisors to the Ministry of Mines told us that construction of a railroad, as well as an on-site power plant, are the key elements of the Chinese bid. These, if realized, will be important to the overall development of Afghanistan's infrastructure.

..and the Chinese say..

¶3. (SBU) On November 26 EconCouns met with Mr. Hu Yuanteng, Chinese Commercial Counselor, who explained that many of the project details will be worked out in contract negotiations, due to start in December and run 120 days until about late March/early April 2008. Even then, feasibility studies need to be completed before many of the details and costs will be known. For example, during the second round of bidding, the Afghan Government asked that the Chinese match the railroad that the Kazakhs had included in their bid. The Chinese Government agreed to fund the estimated \$5 billion cost of building the railroad from the Hairatan railhead with Uzbekistan through Kabul and Aynak to the Torkham border with Pakistan. But the IROA has not yet decided on the gauge of the railroad. (Note: Uzbekistan uses Russian broad gauge track, Pakistan uses standard gauge, and Iran, which is building a rail link to Herat, has its own gauge. China uses standard gauge and Afghanistan has no track. End Note.)

¶4. (SBU) The Chinese Government is funding the railroad because it views this aspect of the Aynak bid as not part of a normal commercial bid. Hu explained that while CMG is state-owned, CMG is now operating in China's market economy as a profit-making enterprise, and as such is different from the former "centrally planned economy's" state-owned enterprises. Also, having just completed the Qinghai to Lhasa railroad, the Chinese government has available construction teams with experience working in rugged, mountainous conditions.

¶5. (SBU) Hu confirmed that, in addition to the railroad, the CMG

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bid includes construction of: a power plant, an associated coal mine to fuel the power plant, and a cement mill to aid in mine construction. While the plant will likely be 400 MW, it is unclear if there will be any excess power available to be sold to power Kabul or Jalalabad. He declined to put a price on the entire construction project, saying that until detailed feasibility studies are completed, anything would be a "guesstimate."

¶6. (SUB) Hu did express concern, however, about the implications of the security situation in Afghanistan for management of the project.

He noted that in an incident several years ago, about 10 to 15 Chinese workers were murdered in their tents the evening of their arrival in Afghanistan. He said the Chinese Government sees the Aynak bid and its associated construction projects, such as the railroad, which will facilitate greater regional economic cooperation, in the context of its support for a politically stable and economically prosperous Afghanistan. For the Chinese, this support is an important way to prevent the re-emergence of a safe operating base in Afghanistan for the so-called East Turkistan Liberation Front in neighboring Xinjiang Province of China.

Background

¶7. (SBU) The Aynak copper deposit is not a new find. It was mapped and prospected at various times by Soviet geologists between 1974 and 1989. They estimated the site contained between 11 and 13 million tons of copper ore, ranking it among the largest copper deposits in the world. Minister of Mines Adel has repeatedly claimed the estimates were "low balled" by the Soviets and expects estimates of ore deposits will increase once the site has been fully surveyed.

¶8. (SBU) Among the companies out-bid by CMG were U.S. company Phelps Dodge, a subsidiary of Freeport-McMoran, Strikeforce, a part of Russia's Basic Element Group, the Kazakhmys Consortium (London-based but with mostly Kazakh assets) and Canadian firm Hunter Dickinson. Hunter Dickinson (HD) was selected as the reserve bidder. If the IROA is unable to conclude mining contract negotiations with CMG in 120 days, they are obliged to begin negotiating with HD. Upon being

notified their bid was unsuccessful, the Kazakh consortium issued an official complaint and went to the media complaining of irregularities in the bid tendering and evaluation process. To date, neither the IROA nor the World Bank, which funded assistance for the tender process (reftel), have commented on these accusations.

Comment

18. (SBU) Comment: It comes as no surprise that Minister Adel has warmly welcomed this investment. Current and former advisors to the Ministry confirm he advocated for the Chinese bid from the start of the evaluation process. Although the expected revenues, promised rail road links, power plant and 10,000 jobs appear to be a win-win for the IROA, it remains to be seen if all of them will materialize. In particular, it is not yet clear how many of the 10,000 jobs to be created will go to Afghans. In addition to following the project's progress, Post will encourage the IROA to create some sort of mechanism to ensure CMG fully lives up to its contractual

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commitments. End Comment.

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